DANN ASSET ADVISORS, LLC

Third Quarter 2015 Update

October 15, 2015

3Q15 Highlights

- Continuing its recent pattern, U.S. economy likely slowed following a strong second quarter
- Fed declines to raise interest rates, seemingly in response to economic uncertainty abroad
- The U.S. stock market has its first decline of more than 10% since 2011
- China modestly devalues its currency
- Oil and many industrial commodity prices fall to the lowest levels since 2009

The table below summarizes the performance of some key indices during the third quarter and year to date:

Market Performance		
Index	% Ch. 3Q15	% Ch. YTD
S&P 500	-6.4	-5.3
MSCI Developed Markets (excl U.S.)	-10.2	-5.3
MSCI Emerging Markets	-17.9	-15.5
MSCI All Country World	-9.3	-6.6
US Aggregate Bond (1)	1.2	1.1
Liquid High Yield (1)	-5.1	-3.6
US Dollar Emerging Markets Bond (1)	-2.0	-0.6

(1) Barclays indices

Equities. The 6.4% negative return for the large cap S&P 500 marked the index's first quarterly decline in nearly three years. The quarter also saw a return to volatility with large down days often followed just the next day with a big gain. We believe that the market decline was caused primarily by investors becoming more uncertain about the pace of economic growth. Combining this increased uncertainty with valuations that were on the high side of fair value made the market ripe for a decline. Whether this decline continues or represents only a blip in what has been a six-year bull market will, in our opinion, depend on the pace of economic growth over the next year. At quarter end the S&P 500 was trading at 16.0x 2015 estimated earnings, down from a high 17.5x over the summer.

As indicated in the table, most international markets had a tougher quarter than the U.S. We believe the decline in non-U.S. developed markets also reflected concerns over economic growth. Developing markets also likely reacted to this same issue. In addition, many developing economies do better when commodity prices are strong – the drop in oil and other industrial commodities (copper, iron ore) during the quarter likely will restrain these economies, and their stock markets reacted to this likelihood. As of quarter end it seemed the Chinese government had stabilized its country's stock market.

Fixed income. Yields on 10-year U.S. Treasury bonds declined modestly, from 2.33% on June 30 to 2.06% at quarter end (and below 2.0% early in October). We believe the decline in yields (increase in price) stemmed primarily from the same economic growth concerns that hurt equities. High quality bonds (as represented by the Barclays U.S. Aggregate Bond index) generated a positive return as investors focused on safety – the substantially more speculative high yield and emerging markets indices generated negative returns during the quarter. The spread between

yields on corporate and treasury bonds has been widening since late 2014; an increase in spreads often is a precursor of economic slowdowns.

General Comments. In recent updates we've discussed the divergence between the relatively strong U.S. consumer and significantly weaker economic signals coming from U.S. industrial companies, international economies and falling commodity prices. In our July update we wrote, "[w]hile we continue to think consumer demand will win out, weakness in the industrial sector could be signaling a more significant economic slowdown ahead and, if that were to be the case, we'd expect a tougher period for the stock market."

The tougher period for the market came in late August, and the disappointing September employment report (released October 2) is the most visible sign that the U.S. economy may be increasingly at risk for a recession. Not being economists (and even if we were!), we don't know what will happen with the economy. But, if we were to go into recession, we believe it likely the market would at best remain volatile near term and at worst decline more.

We're more optimistic for the stock market as we look ahead to 2016. Peak to trough, the market declined 12% in late summer, and valuations have improved. International central bankers are doing everything they can to stimulate their economies. Commodity price declines of the magnitude seen in 2015 are nearly always self-correcting as producers reduce capacity and prices eventually rebound. As a result, we believe there's a good chance markets will be doing better next year as the factors that have hurt in 2015 begin improving.

Portfolio Positioning

The fixed income component of most diversified (fixed income and equity) portfolios remains largely in short duration (three years and under), investment grade corporate and municipal bond funds. For most clients we took no significant actions in fixed income during the quarter. In prior updates we've stated that we expect "rates to remain low relative to historical levels" and we continue to believe this will hold true. With the release of the September employment report, the 10-year treasury yield fell below 2.0% for the first time since early summer.

During a tough quarter for equities, the best performing broad U.S. market sectors were utilities, real estate investment trusts and consumer staples companies (Procter & Gamble, CVS, etc.). Utilities and real estate investment trusts generally are considered interest rate sensitive and likely benefitted from the decline in rates during the quarter. Utilities and real estate investment trusts had been the two worst performing sectors during the second quarter – an indication of the volatility of the market over the past several months. We believe consumer staples held up relatively well due to the non-discretionary, less economically sensitive nature of the sector's businesses.

Given concerns over the economy, energy and materials not surprisingly were the two worst sectors during the third quarter. What was a surprise was that healthcare – after several years of strong outperformance and generally being considered a defensive sector – was the third worst performing area. We'd highlighted in prior updates that healthcare valuations, especially in biotechnology, were relatively full. We believe the third quarter decline in healthcare was merely a needed correction and that longer term this will continue to be a relatively good sector. The third quarter's decline seemed to be exacerbated by a tweet in September from Hilary Clinton about potentially restraining drug price increases.

For most equity-only accounts we had an active third quarter. On a net basis, we modestly added

to stock exposure as the market fell. However, the bulk of transactions during the quarter were sales and only one new position was purchased. Sales were focused in economically sensitive stocks. The one new position is an actively managed mutual fund focused on higher growth sectors – this fund's strategy complements those of two other large mutual funds held by most equity-only clients. Like the other two funds, this fund has done better than the broad market over the long term and held up relatively well during most downturns.

Economy

U.S. GDP growth rebounded to 3.9% during the second quarter. Combining this with an upwardly revised gain of 0.6% in the first quarter indicates first-half growth of approximately 2.2%, consistent with the 2.0%-2.5% increases of recent years. The second quarter saw strong consumer spending and residential and commercial construction; on the negative side, inventories grew even more than consumption. Current estimates for the third quarter (to be reported later this month) are for deceleration to 1.5%-2.0%, with growth being restrained by inventory reduction and a larger trade deficit.

Coming out of their September meeting, the Fed determined not to raise interest rates for the first time since 2006. The Fed's decision seemed due to weakening developing economies' growth (China especially) and very low inflation due at least in part to declining commodity prices. Since the September 17 decision several Fed officials, including Janet Yellen, have indicated that an increase is probable before year-end.

Prior to the release of the September employment report, we'd believed the Fed would raise rates by a quarter point by December and that the increase would be largely a non-event for the economy. With the September employment report we're less sure this will happen. However, in our opinion, regardless of whether rates are raised by year-end the more important issue is that the Fed has been clear that subsequent increases will be very gradual and dependent on further economic improvement. Accordingly, rates are likely to remain low absent a significant acceleration in growth or pick up in inflation.

As mentioned above in the General Comments section we're not sure what's going to happen with the U.S. economy near term. Most recent U.S. recessions have occurred due to some combination of the Fed significantly raising interest rates, U.S. consumers becoming over-extended and reducing spending, a quick and substantial rise in oil prices and/or financial institutions acting imprudently. These factors seem absent currently.

If the U.S. does have a recession, we believe it largely will be imported – spurred by weak international economies and commodity price deflation pressuring large U.S. multinational company results and gradually filtering down to U.S. employment and consumer spending. The September employment report may have been the first indication of this. Still, due to nearly uniform easy money policies abroad and the self-correcting nature of commodity cycles we believe a substantial downturn in the U.S. is unlikely. Further, if a downturn were to occur, we believe a rebound likely would take place in 2016.

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